



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: January 13, 2009

TO: Mayor and Councilmembers

FROM: Administration, Airport Department

SUBJECT: Resolution For An Air Service Development Incentive Program

RECOMMENDATION:

That Council adopt, by reading of title only, A Resolution of the Council of the City of Santa Barbara Establishing an Air Service Development Incentive Program to Support the Development of New and Added Nonstop Destinations to Air Service at the Santa Barbara Airport.

DISCUSSION:

Background

Santa Barbara Airport (SBA) is the busiest commercial service airport on the coast between San Jose and Los Angeles and provides the community with diverse air service to ten nonstop destinations. The economic impact of the Airport and its services has been estimated at more than one-half billion dollars annually.

Maintaining and increasing airline service at Santa Barbara has been challenging given the close proximity to Bob Hope Airport in Burbank and Los Angeles International Airport. Service has been achieved primarily because the community has a strong origin and destination market.

Historically, SBA has not offered monetary incentives to airlines for new or increased service based on the philosophy that such service should be able to sustain itself. SBA has relied on using its strong marketing program to promote all airlines serving Santa Barbara.

However, with the well-documented struggles of the aviation industry coupled with volatile fuel costs and the current economic climate, incentives are needed to strengthen a community's competitive position for new or expanded air service.

Airline Industry and Incentive Programs

An airline's decision to serve a new market represents a significant investment and financial risk to the carrier. Airline route planning decisions are focused more than ever on establishing and maintaining route profitability. Incentive programs are designed to help offset costs when an airline enters or expands service during the important start-up period.

When faced with a choice of where to place additional air service, airline incentive programs are usually a determining factor in the airline decision-making process. Other market factors that influence an airline's decision to offer new air service in a community include route profitability forecasts, aircraft availability, market competition, airport costs, and the level of support an airline will receive from the community. Airline route planners pay particular attention to those communities that effectively partner with carriers and maintain a business-friendly environment at their airports.

Federal Aviation Administration Policy on Incentives

Because of the competitive nature of developing air service, it has become a common practice for communities and airports in the United States to offer incentive programs to support air service development. Federal Aviation Administration policy allows airports to establish air service incentive programs involving waivers or discounting of fees and charges imposed on airlines in exchange for new service. The incentives are limited to a defined promotional period and must be available on a non-discriminatory basis to all airlines that are willing to meet the incentive program criteria.

It is important to note that, although an incentive program will waive Airport fees for qualifying services, the new air service will stimulate additional revenues from passengers who use the service, including food and beverage and retail sales, parking and ground transportation fees, and passenger facility charges.

SBA Incentive Program

The purpose of the Air Service Development Incentive Program is to provide incentives to a new entrant or incumbent airline that provides new nonstop service to any destination that currently does not receive nonstop service from Santa Barbara including those cities in the most current Santa Barbara Airport Air Service Strategic Plan.

In order to be eligible for the Incentive Program, the airline must provide a minimum of five flights per week.

Program Components

New entrant or incumbent Airlines:

- Waiver of landing fees for the new nonstop destination for a limited time not-to-exceed twelve consecutive months.
- Marketing incentives not to exceed \$50,000.

BUDGET/FINANCIAL INFORMATION:

An example of the cost benefit of providing an airline incentive is provided below.

A new airline begins serving a new route not previously served using a 50 seat regional jet. The annual landing fee waiver for one flight meeting the incentive policy would equal approximately \$34,500. This one flight should generate approximately 8,970 new enplaned passengers. On average enplaned passengers spend \$11.77 on Airline Terminal concessions (rental car, parking, food, and gift). In this example, passengers would generate approximately \$105,500. There would be a net gain in Airport Department revenues of \$71,000 annually after providing the incentive.

At the November 19, 2008 meeting, Airport Commission recommended approval of the Air Service Development Incentive Program.

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SUBMITTED BY: Karen Ramsdell, Airport Director

APPROVED BY: City Administrator's Office